

FY 2023 BUDGET FORECAST

JOINT MEETING OF THE BOARD OF SUPERVISORS AND SCHOOL BOARD





Preface

- Strong Real Estate growth is driving revenue increases
- Investments in employee salaries are imperative as recruitment and retention issues are significant
- Both County and Schools have needed to use one-time stimulus funds for recurring items
 - Baseline funding required for FY 2023
- Still many unknowns as both County and Schools continue building their proposed budgets
- Likely will be limited flexibility for other priorities

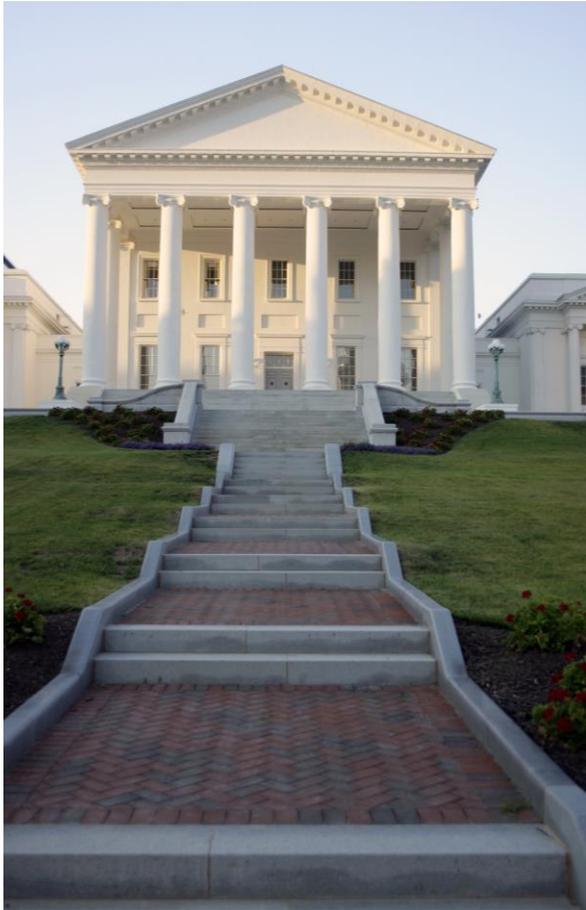




National Economy

Moderation of economic activity in recent months due to the third wave of COVID-19 during the summer

- Real GDP increased at an annualized rate of 2.0% in the third quarter of 2021, after having increased by 6.7% in the second quarter.
- The slowing increase in third quarter GDP reflected the resurgence of the COVID pandemic over the summer.
- Employment continues to recover but remains 4.2 million below pre-pandemic levels.
- The rate of inflation accelerated to 6.2% in October as the result of pandemic related supply chain disruptions and labor shortages.
- The Fed is suggesting it will maintain its funds rate target range at 0.00-0.25% until at least after it stops its bond purchasing program by the middle of next year.



State Revenue Picture

- State revenue in FY 2021 was over \$2.6 billion higher than projected and exceeded even pre-pandemic expectations
 - FY 2021 revenue growth was highly atypical
- FY 2022 state revenues are tracking well ahead of the adopted budget estimate, demonstrating “Virginia’s economy is on a solid path toward recovery”
 - Revenue collections increased 11.8% through October compared to projections of an 8.0% decline for the year
 - The outlook for the current fiscal year has improved significantly and will result in upward adjustments
- For the next biennium, growth is expected to moderate, returning closer to historical trend as federal stimulus impact wanes
 - Inflation and consumer sentiment may negatively impact revenues

Fairfax County Revenue Picture

- Actual FY 2021 County revenues were 1% above the budget estimate
 - Collections of Sales Tax and BPOL Tax revenue were stronger than initially expected due to federal stimulus and the structure of the County's economy.
 - Many other charges and fees were lower as a result of program closures and lower levels of activity across the County
- YTD revenue collections are tracking higher than the budget estimate and the FY 2022 Mid-Year Review will recommend increasing revenues
 - Personal Property Tax, Sales Tax, BPOL taxes are expected to be up, partially offset by projected lower SACC revenue, Charges for Services, Permits and Fees, and Fines and Forfeitures revenues.
- Robust FY 2023 revenue growth is expected, mainly driven by growth in the Real Estate tax base.



Northern Virginia Real Estate Market

Average home sales price through October 2021 compared to the same period of 2020

Jurisdiction	Average Home Sales Price	% Change
Arlington	\$774,605	(1.5%)
Alexandria	\$670,890	4.1%
Fairfax County	\$709,477	9.3%
Prince William	\$504,436	13.6%
Loudoun	\$668,159	12.4%

Data Source: Bright MLS



Revenue Projections

Revenue Projections since the Beginning of the COVID-19 Pandemic

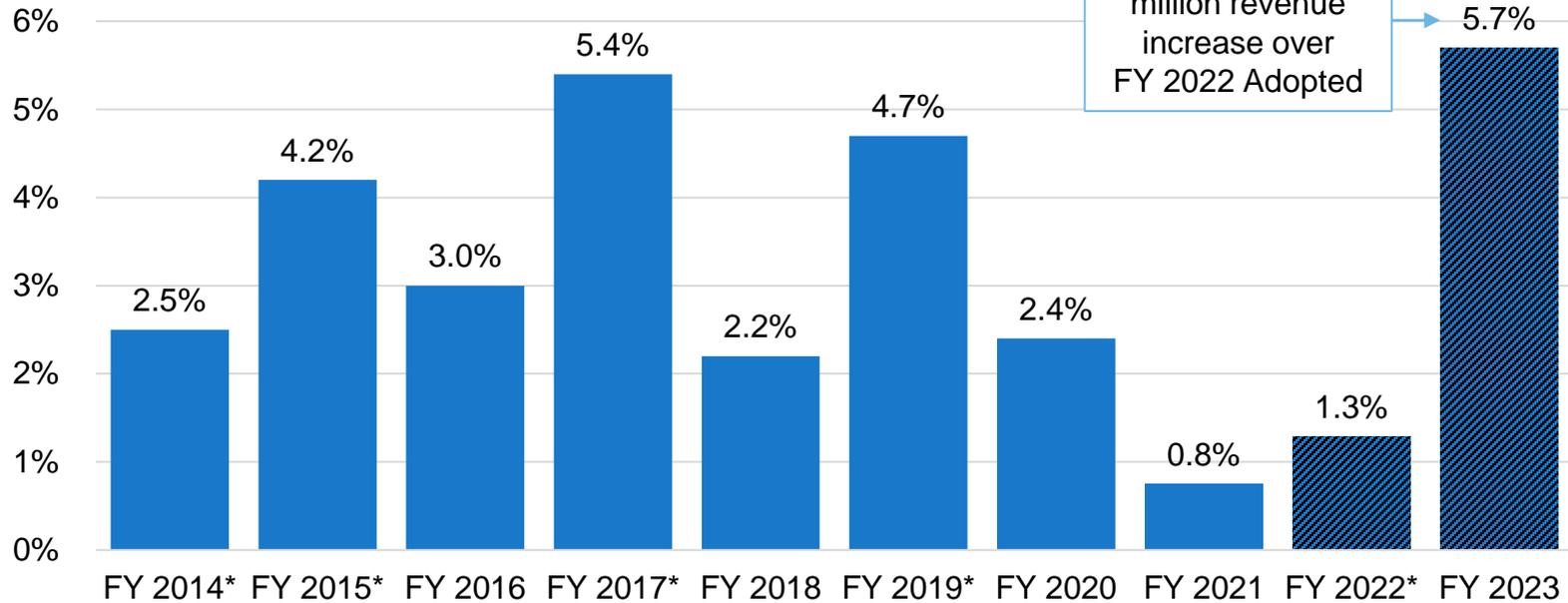
Uncertainty in revenue projections

- The uncertainty of revenue projections in the last couple of years has been magnified due to the unprecedented economic disruptions and sporadic recovery from the pandemic
- Revenue collections have experienced high volatility since the beginning of the pandemic
- FY 2023 revenue forecast assumes that the economic recovery will continue at a modest pace

Downside risks persist

- Increases in COVID-19 cases could cause additional restrictions on businesses during the winter months
- The expiration of unemployment insurance benefits and other federal transfers could result in lower consumer confidence and spending
- Supply chain issues could slow down the economic recovery
- Accelerating inflation may force the Federal Reserve to end its accommodative monetary policy sooner than otherwise expected

Annual Change in General Fund Revenue FY 2014 - FY 2023



* Revenue change includes impact of real estate tax rate increase
Growth rates exclude the impact of one-time federal stimulus in FY 2020 and FY 2021

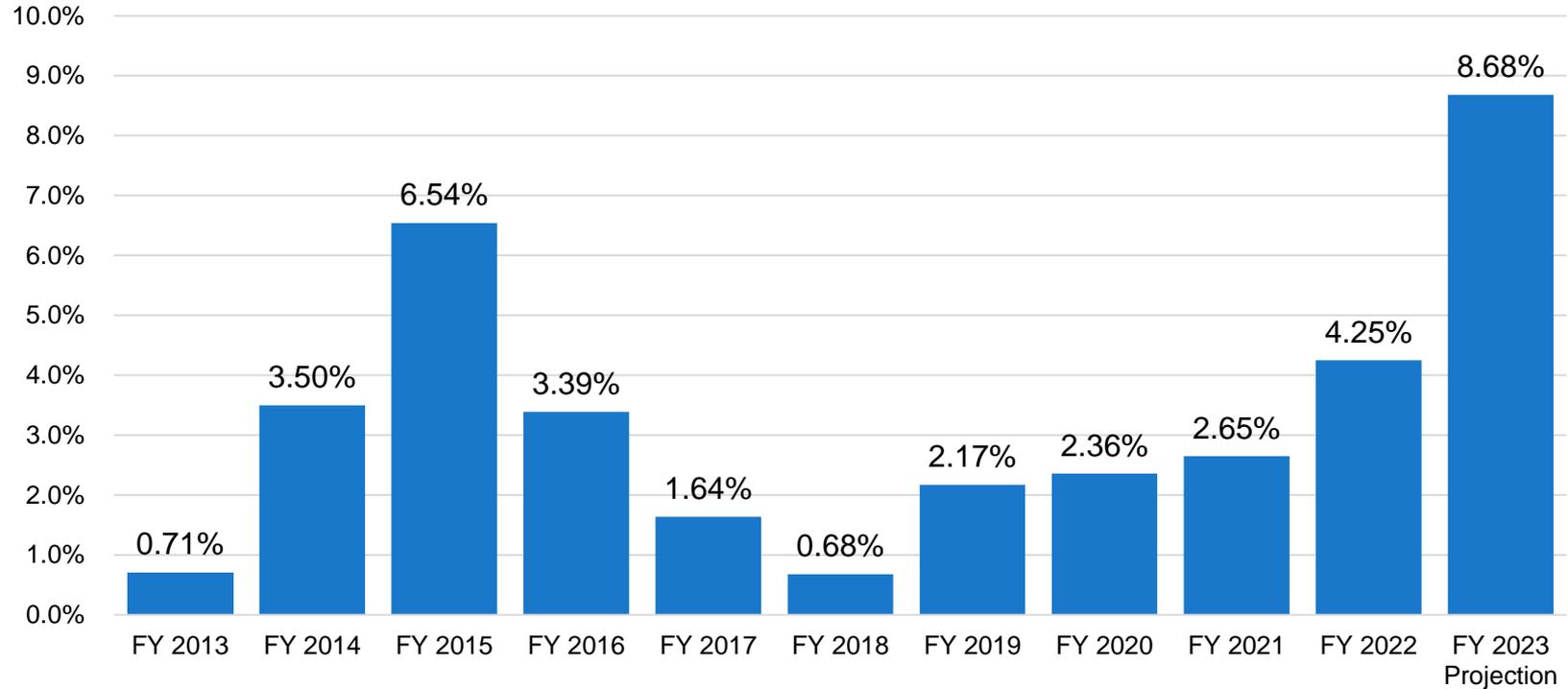
— Projections as of November 2021 —

FY 2023 Real Estate Projections

- Real Estate tax is by far the largest source of revenue, comprising almost 68% of total General Fund revenue
- Projected modest decline in nonresidential values is expected to be offset by significant growth in residential values

Changes in Assessments	FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Estimate as of Nov. 2021
Residential	2.36%	2.65%	4.25%	8.68%
Nonresidential	2.71%	2.87%	(4.05%)	(0.55%)
New Construction	1.15%	1.06%	0.86%	0.62%
Total Real Estate base	3.60%	3.77%	2.88%	6.96%

Annual Changes in Residential Equalization



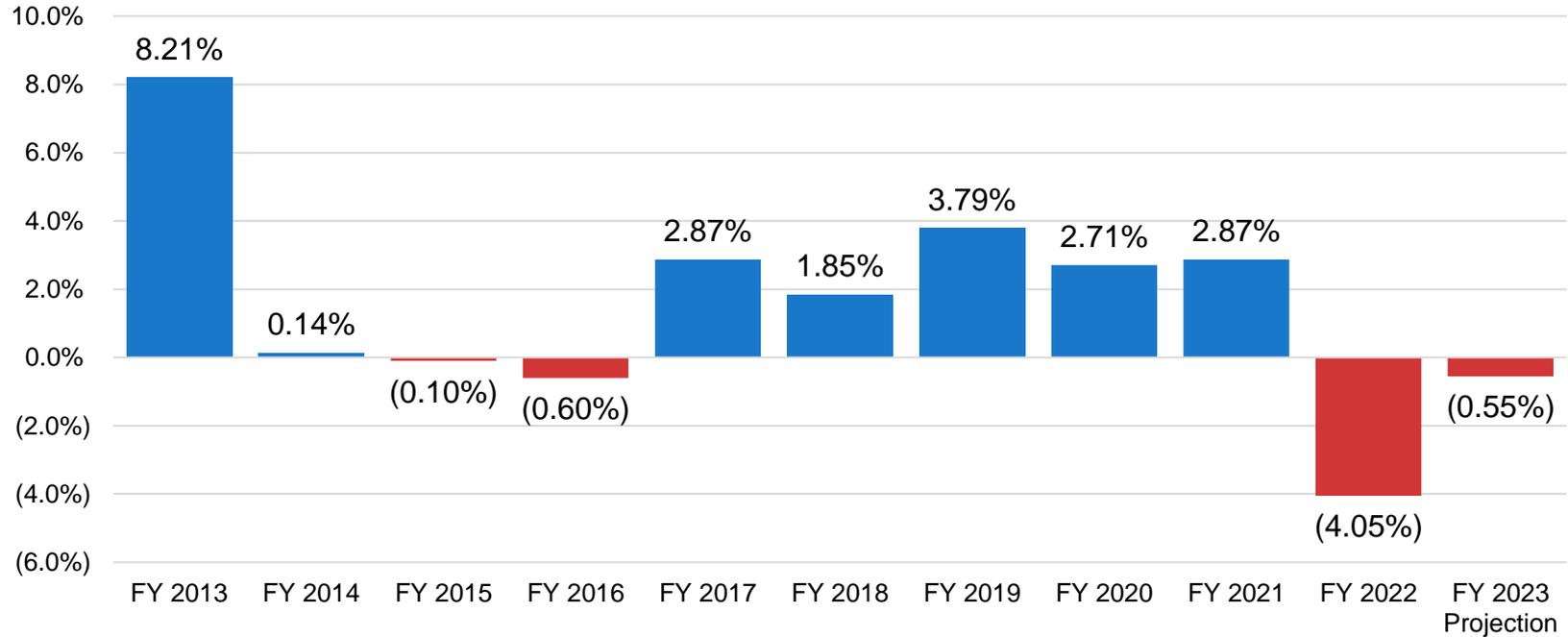
Fairfax County's Housing Market

Residential values are projected to increase 8.68% in FY 2023

- Extremely strong residential real estate market, supported by very low mortgage rates
- According to Freddie Mac, the average 30-year fixed mortgage interest rate in October was 3.07%, up from 2.83% a year ago
- Data from Bright MLS indicates that through October home sales prices in Fairfax County are up 9.3%
- Year-to-date through October, the number of home sales has increased 18.6%
- Supply of homes for sale on the market is down 14.4% in October
- Average number of days to sell a home is 22 days in October 2021 compared to 16 last October
- Through the third quarter of calendar year 2021, the number of new single-family and townhome permits is up 45.9%



Annual Changes in Nonresidential Equalization



Nonresidential Real Estate

Projected to decrease 0.55% in FY 2023

- Office buildings and senior care properties are expected to continue to experience pandemic related declines due to changes in work patterns and COVID related health concerns
- As of mid-year 2021, the overall office vacancy rate with sublets increased to 16.4%, up from 15.5% at year-end 2020
- Multi-family apartments are expected to increase, with rising rental rates and fewer concessions
- Retail including Regional Malls is expected to show flat to minor increases
- Hotel occupancy year-to-date is recovering slowly from the effects of COVID-19, but business travel is still lagging



FY 2023 Projections for Other County Revenue Categories

Tax Revenues

- Personal Property Tax – conservatively projected to increase 3.0%
 - Staff is still gathering relevant data to properly project this revenue category
 - Used car values are significantly up for a second year in a row due to tight inventory, while vehicle volume in the County is projected to stabilize
- BPOL – 2.5% increase after a projected increase of 3% in FY22
- Sales Tax – growth of 2.5% after a projected increase of 3.5% in FY22
- Transient Occupancy Tax – increase of 15% after a projected increase of over 50% in FY22

Non-Tax Revenues

- Investment Interest revenue – projected annual yield of just 0.45%
 - The Fed is not expected to raise its funds rate from near zero until at least the end of 2022
- Charges for Services – 12.5% increase primarily due to increased revenue from SACC, Rec classes, and other County programs
- Fines and Forfeitures revenue – 10% increase
- No increase in state and federal revenue



County Revenue Projections

REVENUE CATEGORY	Change from FY22 Adopted
<ul style="list-style-type: none">• Base Revenue Increase driven primarily by Real Estate growth	\$279.6 million
<ul style="list-style-type: none">• Tax Relief Placeholder included for the expansion of Tax Relief for Seniors and the Disabled	(\$12.0) million
TOTAL	\$267.6 million



FCPS Revenue Projections

REVENUE CATEGORY	Change from FY22 Approved
<ul style="list-style-type: none"> Beginning Balance Based on funding set-aside at the FY22 Final Budget Review 	(\$9.3) million
<ul style="list-style-type: none"> State Revenue Assumes state funding is level to allow time to assess the impact of ADM and rebenchmarking 	\$0.0 million
<ul style="list-style-type: none"> Federal Revenue Represents the net impact of eliminating one-time ESSER funding 	\$0.0 million
<ul style="list-style-type: none"> Fairfax City and Other Revenue Based on projected expenditures and assumes enrollment is level 	\$0.0 million
TOTAL	(\$9.3) million



FY 2023 Forecast Summary



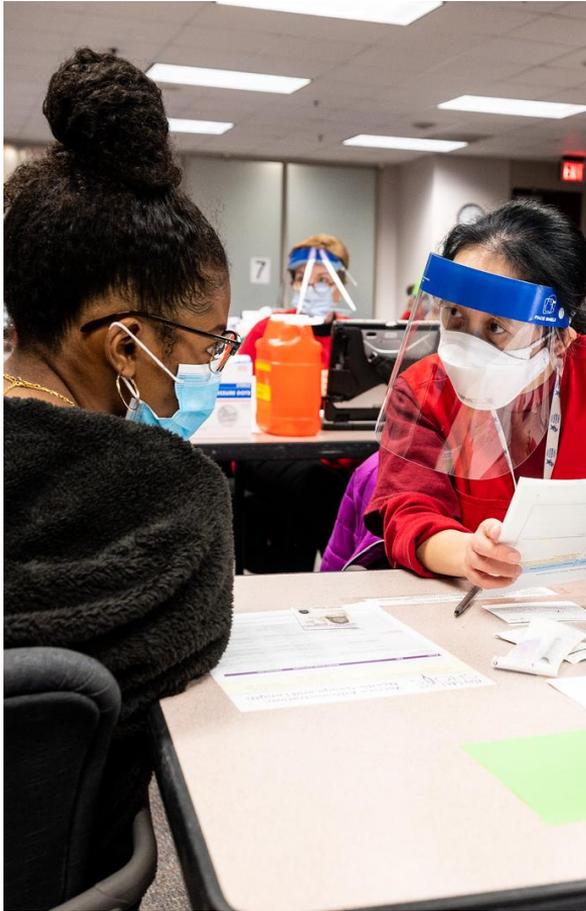
Projected Available Resources

- County revenue growth projected at 5.7% generates \$279.6 million
- Proposed changes to the tax relief program are projected to result in a \$12.0 million reduction in revenue
- To maintain equal growth for both the Schools and County (5.74%), the net revenue increase of \$267.6 million is allocated as follows for disbursement requirements:
 - Schools: \$136.8 million
 - County: \$123.2 million
 - Reserve Contributions: \$7.6 million
- Partially offsetting this amount, Schools projects a decrease in revenue of \$9.3 million



County Pay and Benefits

	Change from FY22 Adopted
<ul style="list-style-type: none"> Market Rate Adjustment of 4.01% for all employees based on established formula 	\$58.5 million
<ul style="list-style-type: none"> Performance/Longevity increases averaging 2.15% for non-uniformed merit employees 	\$15.5 million
<ul style="list-style-type: none"> Merit/Longevity increases averaging 3.25% for uniformed merit employees 	\$9.0 million
<ul style="list-style-type: none"> Placeholder for Market Studies 	\$2.5 million
<ul style="list-style-type: none"> Employee Benefits 	\$4.0 million
TOTAL	\$89.5 million



Other County Adjustments

	Change from FY22 Adopted
<ul style="list-style-type: none"> Recurring adjustments funded initially with stimulus funds (includes Public Health Nurse positions, public health preparedness positions, Co-Responder positions) 	\$17.5 million
<ul style="list-style-type: none"> Recurring adjustments funded at Carryover (includes Positions to support Facilities Management needs, Collective Bargaining, Energy Strategy) 	\$5.7 million
<ul style="list-style-type: none"> Recurring adjustments anticipated to be recommended at Mid-Year (positions supporting Tax Relief and Police Citizen Review Panel) 	\$0.9 million
<ul style="list-style-type: none"> Debt Service Requirements 	\$3.3 million
<ul style="list-style-type: none"> New Facilities (includes South County Police Station and Animal Shelter, Scotts Run Fire Station, Lorton Community Center, Sully Community Center) 	\$6.3 million
TOTAL	\$33.7 million

Schools Pay and Benefits



	Change from FY22 Approved
<ul style="list-style-type: none"> Market Scale Adjustment (MSA) Provide a 3% MSA for all employees 	\$75.3 million
<ul style="list-style-type: none"> Step for Eligible Employees Average increase of 2.68% for employees 	\$53.5 million
<ul style="list-style-type: none"> Transportation Compensation – Recurring cost to bring starting bus driver salaries to \$22.91 and a 2.5% increase for the remaining steps and lanes on the transportation pay scale 	\$3.3 million
<ul style="list-style-type: none"> Substitute Pay Increase – Recurring cost to increase substitute teachers ranging from \$1 to \$3 per hour, \$2 per hour for IA/PHTA/PHA, and \$1 per hour for retirees 	\$4.4 million
<ul style="list-style-type: none"> Health Benefits Healthcare – (employer share; employee share 2.3% contribution rate increase) 	\$8.0 million
<ul style="list-style-type: none"> Retirement - VRS, ERFC, FCERS 	TBD
<ul style="list-style-type: none"> Base Savings - Position turnover 	(\$21.5) million
TOTAL	\$123.0 million

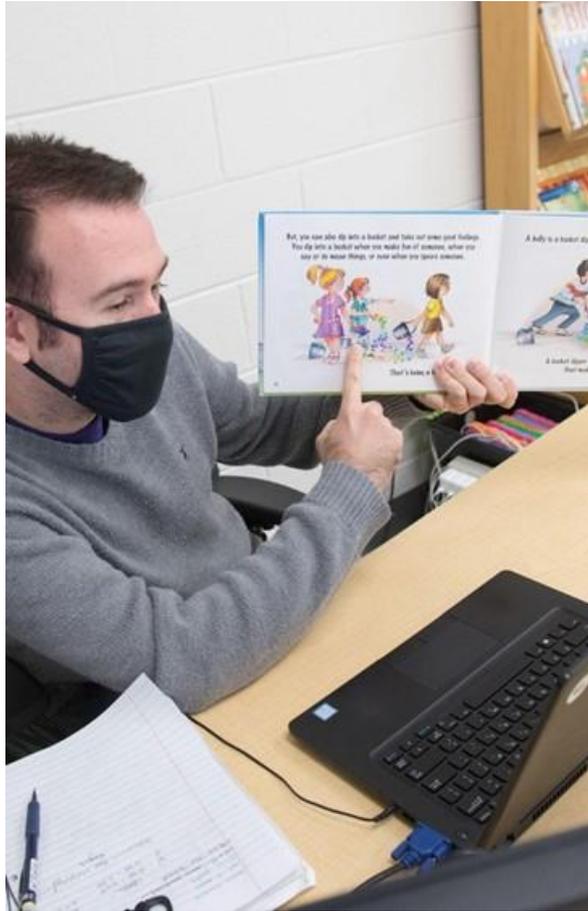
Other Schools Adjustments

	Change from FY22 Approved
• Enrollment and Student Needs	TBD
• School Debt Service Requirements*	\$4.1 million
• FCPS On HS, MS, ES, TSSpec, Family Liaisons, EL (previously funded with ESSER II and ESSER III)	\$13.6 million
• Restore Centralized Instructional Resources (textbooks and basal materials) - Restore one-time deferral of textbook adoption included in the FY22 Approved Budget	\$16.2 million
• Restore Staffing Reserve - Restore 33.0 staffing reserve positions eliminated as part of the FY22 Approved Budget	\$3.4 million
• Contractual - Cost escalation, utilities, major IT projects, facilities	\$6.8 million
• Transfer to Other Funds - Construction equipment transfer, early childhood, turf maintenance	\$1.1 million
TOTAL	\$45.2 million

* Not included in initial FCPS forecast presented to School Board

FY 2023 SUMMARY

COUNTY	Funding in \$ millions	SCHOOLS
\$123.2	Available County Revenue	\$136.8
--	Net Schools Revenue	(\$9.3)
\$123.2	TOTAL AVAILABLE	\$127.5
(\$85.5)	Employee Pay	(\$115.0)
(\$4.0)	Employee Benefits	(\$8.0)
(\$3.3)	Debt Service	(\$4.1)
(\$24.1)	Recurring Adjustments (including stimulus-funded)	(\$13.6)
(\$6.3)	Other Adjustments	(\$27.5)
\$0.0	NET BUDGETARY BALANCE/(SHORTFALL)	(\$40.7)



Priorities Not Included

- The forecast presented on the prior slides does not include additional investments in important priorities such as:
 - Affordable Housing
 - Capital Programs (County and Schools)
 - Environmental/Energy Initiatives
 - Schools Ongoing Commitments (\$12.6m)
 - Schools Critical Operational Needs (\$13.0m)
 - Transportation
 - School Readiness



Looking Ahead

- Recruitment/Retention anticipated to remain challenges
- Trajectory of COVID-19 impacts economic recovery
- State Budget Concerns
 - K-12 Outlook
 - Prescribed VBOE SOQ changes
 - Continued implementation of K-12 Special Education JLARC Study Recommendations
 - Elimination of Sales Tax on food would impact County and Schools

Budget Timeline

COUNTY DATES		SCHOOL DATES
	Superintendent releases FY 2023 Proposed Budget	January 13, 2022
	School Board holds public hearings on budget (January 26 if needed)	January 24, 2022
February 22, 2022	County Executive presents FY 2023 Advertised Budget	
	School Board adopts FY 2023 Advertised Budget	February 24, 2022
March 1, 2022	Joint County/Schools Budget Committee Meeting to discuss FY 2023 budget and tax rate	March 1, 2022
March 8, 2022	Board of Supervisors advertises FY 2023 tax rates	
April 12-14, 2022	Board of Supervisors holds public hearings on FY 2023 Budget	
April 26, 2022	Board of Supervisors marks up FY 2023 Budget	
May 10, 2022	Board of Supervisors adopts FY 2023 Adopted Budget	
	School Board holds public hearings on budget (May 18 if needed)	May 17, 2022
	School Board adopts FY 2023 Approved Budget	May 26, 2022
July 1, 2022	FY 2023 Budget Year begins	July 1, 2022